

**Provisions of  
Tax Administration Good Government Act  
Introduced April 10, 2003**

**I. Improve Tax Administration and Establish Taxpayer Safeguards**

**Collection**

**Waiver of user fee for installment agreements using automated withdrawals.** The IRS imposes a \$43 user fee on taxpayers entering into an installment agreement. The proposal would waive the user fee if the taxpayer agrees to automated withdrawal of installment payments from a bank account. This proposal will help facilitate collection through automated withdrawals.

**Authorize partial pay installment agreements.** The proposal restores authority that the IRS had prior to 1998 to allow IRS to enter into installment agreements with taxpayers that want to resolve their tax liability but cannot afford to make payments large enough to fully pay the liability at the end of the term of the installment agreement. The proposal would permit the collection of taxes from cases that are otherwise placed in the currently not collectible inventory.

**Terminate installment agreements for failure to file returns and failure to make tax deposits.** The proposal would stop the downward spiral where taxpayers owe more and the Government collects less. Although a significant number of taxpayers violate the terms of their installment agreements by failing to timely file their tax returns or make required Federal tax deposits, the IRS is not permitted to terminate installment agreements for these reasons.

**Remove \$50,000 threshold requirement for office of chief counsel review of offers in compromise—IRC section 7122(b).** The proposal would remove the dollar threshold and give IRS discretion in determining when a Chief Counsel opinion is necessary. IRS attorneys are presently required to review offers where the tax assessed, including penalties and interest, exceeds \$50,000. As a practical matter, IRS lawyers offer little in the way of review and often contribute to the delay in processing OICs.

**Seven-day threshold on tolling of statute of limitations during National Taxpayer Advocate review.** The proposal provides additional time, without tolling the statute of limitations, for review by the National Taxpayer Advocate for taxpayer assistance orders.

**Increase Penalty for Bad Checks.** Proposal would increase penalty for bad checks to \$20 or 2% of amount over \$1,000.

**Allow the Financial Management Service to Retain Transaction Fees from Levied Amounts.** Proposal would allow FMS to retain directly a portion of the levied funds as payment of FMS fees. A delinquent taxpayer, however, would receive full credit for the amount levied upon (i.e., the amount credited to a taxpayer's account would not be

reduced by FMS's fee). The IRS pays FMS fees out of its own appropriations. The proposal would alter internal government accounting and allow the use of appropriated funds to administer the tax system.

**Elimination or Restriction on Offsetting Refunds from former residents.** The proposal would allow States to offset Federal tax refunds owed by former residents. In 1998, Congress authorized the state refund offset program. However, the provision did not authorize states to offset Federal tax refunds for State tax debts owed by former residents who had subsequently moved to another State. Former residents have the same safeguards as residents in these situations and there is strong precedence that clearly gives States authority to impose and collect taxes on former residents.

### **Processing and Personnel**

**Explanation of Statute of Limitations and Consequences of Failure to Timely File.** The proposal would require the IRS to provide taxpayers with an explanation of the consequences of failing to timely file refund claims.

**Disclosure of tax information to facilitate combined employment tax reporting.** The proposal would expand and make permanent the disclosure authority of the IRS to permit disclosures of name, address, taxpayer identification number, and signature to any State entity for purposes of carrying out a combined federal and state employment tax reporting program. Under current law, no tax information may be furnished by the Internal Revenue Service to another agency except as permitted under section 6103 which requires the other agency to establish procedural safeguards satisfactory to the IRS. A pilot program was established in 1997 in the State of Montana to assess the feasibility and desirability of expanding combined reporting. Reports from Montana were very positive about the program.

**Expansion of declaratory judgment remedy to tax-exempt organizations.** The proposal would extend declaratory judgment procedures similar to those currently available only to charities under section 7428 to other section 501(c) determinations. The proposal would limit jurisdiction over controversies involving such determinations to the United States Tax Court. In addition, the proposal would modify the present-law declaratory judgment procedures to provide that an organization is deemed to have exhausted its administrative remedies under the declaratory judgment procedures at the expiration of (1) 270 days after the date on which the request for a determination was made, or (2) in the case of a failure by any office of the IRS to make a determination (other than the office responsible for initial determinations with respect to the issue), 450 days after the date on which the request for a determination was made. The proposal would also require the organization to take, in a timely manner, all reasonable steps to secure such determination.

**Amendment to Treasury auction reforms.** The proposal would permit earlier disclosure upon the release by the Secretary of the minutes of the meeting. Under current law, members of the Treasury Borrowing Advisory Committee are prohibited from

disclosing anything relating to the securities to be auctioned in a midquarter refunding by the Secretary until the Secretary makes a public announcement of the refunding.

**Revisions relating to termination of employment of IRS employee misconduct.**

Proposal would modify section 1203 by removing the late filing of refund returns from the list of violations and removing employee versus employee acts (i.e. for violation of an employee's rather than a taxpayer's Constitutional or civil rights) from the list of violations.

**IRS Oversight Board approval of use of critical pay authority.** The proposal would require IRS Oversight Board review and approve the use of critical pay authority. Critical pay allows the IRS to hire employees critical to the mission of the IRS as well as allow the IRS to hire up to 40 individuals for four year terms under streamlined procedures.

**Low-income taxpayer clinics.** The proposal would increase the authorization for low-income taxpayer controversy clinics to \$10 million and authorize a similar grant program for low-income taxpayer preparation clinics for \$10 million. The proposal would specify that grants may not be used for any purpose other than those specified in the Code (this restriction would be inapplicable to funds from other sources). The proposal would also authorize the IRS to promote the benefits and encourage the use of low-income taxpayer clinics.

**Enrolled agents.** The proposal would add a new section to the Code permitting the Secretary to prescribe regulations to regulate the conduct of enrolled agents in regard to their practice before the IRS and to permit enrolled agents meeting the Secretary's qualifications to use the credentials or designation "enrolled agent", "EA", or "E.A.".

**Establishment of disaster response team.** Proposal would require the IRS to establish a permanent Disaster Response Team which, in coordination with the Federal Emergency Management Agency, is to assist taxpayers in clarifying and resolving tax matters associated with a Presidentially declared disaster or a terroristic or military action. The Team is to be staffed by IRS employees with a relevant knowledge and experience, including a representatives from the Office of the Taxpayer Advocate.

**Accelerated tax refunds.** Proposal would require the Secretary of Treasury to study and report to the tax writing committees on options to accelerate tax refunds for taxpayers who maintain the same filing characteristics and elect the direct deposit option for any refund.

**Study on clarifying record-keeping responsibilities.** The proposal would require the Secretary of the Treasury to study the scope of records required to be maintained by taxpayers, the utility of requiring taxpayers to maintain records indefinitely, the taxpayer burden incurred by such requirement given the necessity to upgrade technological storage for outdated records, the number of negotiated records retention agreements requested by taxpayers and the number entered into by the IRS, and proposals regarding taxpayer

record-keeping. Under current law, every person liable for any tax imposed by the Code, or for any collection thereof, shall keep such records as the Secretary of the Treasury may from time to time prescribe.

**Streamline National Taxpayer Advocate Annual Reports.** Each year, the National Taxpayer Advocate is required to issue two reports to Congress: (1) an annual report on objectives of the Advocate for the year due June 30 and (2) an annual report on the Advocate's activities including the 20 most serious problems confronting taxpayers. The Advocate's office spends an enormous amount of time and effort preparing these reports. The proposal would streamline the reporting process by requiring the Advocate to issue only one report each year.

**Penalty on failure to report interests in foreign financial accounts.** The proposal would establish a \$5,000 penalty for non-wilful failure to report interest in foreign bank accounts. Under present law there is only a penalty of \$25,000 for willful failures.

**Repeal of personal holding company tax.** The proposal would repeal the personal holding company (PHC) tax. Subsequent changes in the tax code resulted in the provisions ineffectiveness as originally intended.

## **II. Simplification of Interest and Penalty Regimes**

**Individual estimated tax.** The proposal simplifies the individual estimated tax penalty including, increase the penalty threshold for individuals to \$2,000 from \$1,000; apply one interest rate per estimated tax underpayment; and adopt 365-day year.

**Corporate estimated tax.** The proposal simplifies the corporate estimated tax penalty by increasing the exception for small amount of tax shown on the return from less than \$500 to less than \$1,000.

**Increase in large corporation threshold for estimated tax payments.** The proposal simplifies the corporate estimated tax by expanding the safe harbor exception used by small corporations by increasing the threshold from \$1 million to \$1.5 million of taxable income.

**Expansion of interest abatement.** The proposal would: 1) expand the circumstances in which interest may be abated to include periods attributable to any unreasonable IRS error or delay and 2) allow the abatement of interest to the extent interest is attributable to the taxpayer's reliance on written statement by the IRS.

**Deposits made to stop the running of interest.** Proposal would permit deposits to be made to an interest bearing account within Treasury to cover tax underpayments related to issues potentially subject to dispute with the IRS.

**Freeze provision regarding suspension of interest where Secretary fails to contact taxpayer.** The proposal would repeal current law which requires the suspension of

interest on taxes owed until 21 days after the IRS sends a notice of deficiency. The suspension is triggered if the IRS fails to contact the taxpayer within 1 year for taxable years after January 1, 2004 or 18 months for taxable years before January 1, 2004. The proposal is unnecessary with expanded interest abatement.

**Expansion of interest netting.** Applies interest netting rules without regard to the 45-day period in which the Secretary may refund an overpayment of tax without the payment of interest.

**Clarification of application of Federal tax deposit penalty.** The proposal would clarify that the 10 percent penalty rate only applies in cases where the failure to deposit extends for more than 15 days.

**Frivolous tax submissions.** The proposal would increase the penalty for frivolous tax returns from \$500 to \$5,000. In addition, the proposal would permit the IRS to dismiss requests for Collection Due Process hearings, installment agreements, offers-in-compromise, and taxpayer assistance orders if they are based on frivolous arguments or are intended to delay or impede tax administration. Individuals submitting such requests are subject to a \$5,000 penalty for repeat behavior or failure to withdraw the request after being given the opportunity to do so.

### **III. U.S. Tax Court Modernization**

**Jurisdiction of Tax Court over collection due process cases.** Currently, if a taxpayer's underlying tax liability does not relate to income taxes or a type of tax over which the Tax Court normally has deficiency jurisdiction, there is no opportunity for Tax Court review and the taxpayer must file in a District Court to obtain review. This provision consolidates judicial review of collection due process activity in the Tax Court.

**Authority for special trial judges to hear and decide certain employment status cases.** This provision clarifies that the Tax Court may authorize its special trial judges to enter decisions in employment status cases that are subject to small case proceedings under section 7436(c).

**Confirmation of authority of Tax Court to apply doctrine of equitable recoupment.** The common-law principle of equitable recoupment permits a party to assert an otherwise time-barred claim to reduce or defeat an opponent's claim if both claims arise from the same transaction. This provision confirms statutorily that the Tax Court may apply equitable recoupment principles to the same extent as District Courts and the Court of Federal Claims.

**Tax Court filing fee in all cases commenced by filing petition.** This provision clarifies, in keeping with current Tax Court procedure, that the Tax Court is authorized to impose a \$60 filing fee for all cases commenced by petition. The proposal would eliminate the need to amend section 7451 each time the Tax Court is granted new jurisdiction.

**Amendments to appoint employees.** Currently, the Tax Court has to go to the executive branch, the Office of Personnel Management, to change a position. It is inappropriate to require the Tax Court to seek permission from the executive since that branch is a party (Commissioner of Internal Revenue) before the Tax Court. This change would allow the Tax Court to be independent in fact and perception from the Executive Branch while ensuring that basic employee rights, protections, and remedies are retained or required in an appropriate way (e.g., whistleblower protection, civil rights, merit system principles, etc.).

**Expanded use of Tax Court practice fee for pro se taxpayers.** The Tax Court is authorized to charge practitioners a fee of up to \$30 per year and to use these fees to pursue disciplinary matters. The provision expands use of these fees to provide services to pro se taxpayers. Fees could be used for education programs for pro se taxpayers.

**Annuities for survivors of Tax Court judges who are assassinated.** The reality is that many people do not like to pay taxes. There is as much risk of a Tax Court judge being assassinated as any other Federal judge. The proposal would conform the treatment of Tax Court judges to District Court judges.

**Cost-of-living adjustments for Tax Court judicial survivor annuities.** All Federal employees have this provision except the Tax Court. Survivors of Tax Court judges are subject to an obsolete method of indexing.

**Life insurance coverage for Tax Court judges.** This simply codifies current Office of Personnel Management interpretation, as was previously done for District Court judges.

**Cost of life insurance coverage for Tax Court judges age 65 or over.** Congress established the Tax Court in 1969 and required that Tax Court judges receive the same compensation as District Court judges. The District Court judges were given this benefit to ensure that there was no diminution of their compensation (as required by the Constitution). This provision is in keeping with the original intent of Congress.

**Modification of timing of lump-sum payment of judge's accrued annual leave.** District Court judges are allowed to receive a lump-sum payment due to the life-time tenure of Article III judges. Tax Court judges, while they have a 15 year term, effectively have a life-time term because they are always subject to recall.

**Participation of Tax Court judges in the Thrift Savings Plan.** The proposal would allow Tax Court judges to participate in Thrift Savings Plan. Currently, only 19 federal government employees are left out of the Thrift Savings Plan (i.e., Tax Court judges).

**Exemption of teaching compensation of retired judges for limitation on outside earned income.** After retirement, Tax Court judges should have the same ability to teach as District Court judges.

**General provisions relating to magistrate judges of the Tax Court.** “Magistrate” is more recognizable to the American public because it is the term used by Article III courts. The provision changes the term “Special Trial Judge” to “Magistrate Judge of the United States Tax Court” and provides for alignment of term of office and removal applicable to District Court magistrate judges.

**Annuities to surviving spouses and dependent children of magistrate judges of the Tax Court.** This section gives Magistrates/Special Trial Judges the same advantages as Tax Court judges, thus ensuring a greater pool of participants in the fund.

**Retirement and annuity program for magistrate judges.** A retirement and annuity program more aligned with District Court Magistrates and the Tax Court judges is key for attracting and retaining qualified judges.

**Incumbent magistrate judges of the Tax Court.** The provision provides transition rules similar to those given to the District Court magistrate judges.

**Provisions for recall.** Article III judges are “self-recalling” (i.e., they decide for themselves whether they are recalled or not). In contrast, Tax Court judges are subject to provisions that authorize mandatory recall by the Chief Judge. These provisions authorize the recall of Magistrates/Special Trial judges in a manner similar to those now applicable to the regular judges of the Court.

#### **IV. Confidentiality and Disclosure Reforms**

**Clarification of definition of church tax inquiry.** The proposal would clarify that the present-law church tax inquiry procedures do not apply to contacts made by the IRS for the purpose of educating churches with respect to the law governing tax-exempt organizations. For example, the proposal clarifies that the IRS does not violate the church tax inquiry procedures when written materials are provided to a church or churches for the purpose of educating such church or churches with respect to the types of activities that are not permissible under section 501(c)(3).

**Collection activities with respect to joint return disclosable to either spouse based on oral request.** The proposal would eliminate the requirement for former spouses to make a written request for disclosure of collection activities with respect to a joint return. Under present law, section 6103(e)(7) permits the IRS to disclose return information to the same persons who may have access to a return under the other provisions of section 6103(e), thus either spouse may obtain return information regarding a joint return upon oral request.

**Taxpayer representatives not subject to examination on sole basis of representation of taxpayers.** The proposal would clarify that an IRS employee conducting an examination of a taxpayer is not authorized to inspect a taxpayer representative’s return or return information solely on the basis of the representative relationship to the taxpayer. Under the proposal, the supervisor of the IRS employee would be required to approve

such inspection after making a determination that other grounds justified such an inspection. The proposal would not affect the ability of employees of the IRS Director of Professional Responsibility, or other employees whose assigned duties concern the regulation of practice before the IRS, to access returns and return information of a representative.

**Prohibition of disclosure of taxpayer identifying number with respect to disclosure of accepted offers-in-compromise.** The proposal would prohibit the disclosure of the taxpayer identification number as part of the publicly available summaries of accepted offers in compromise.

**Compliance by contractors with confidentiality safeguards.** The proposal would require that a State or Federal agency conduct on-site reviews of all of its contractors receiving Federal returns and return information every three years. This review is intended to cover secure storage, restricting access, computer security, and other safeguards deemed appropriate by the Secretary. Under the proposal, the State or Federal agency would be required to submit a report of its findings to the IRS and certify annually that all contractors are in compliance with the requirements to safeguard the confidentiality of Federal returns and return information.

**Higher standards for requests for and consents to disclosure.** The proposal would render invalid a consent that does not designate a recipient or is not dated at the time of execution. The person submitting the consent to the IRS would be required to verify under penalties of perjury that the form was complete and dated at the time it was signed by the taxpayer. Inspection or disclosure of a return or return information pursuant to an invalid consent would be unauthorized under section 6103. Thus, a person making such unauthorized disclosure or inspection could be liable for civil damages under section 7431, and criminal penalties under section 7213 or 7213A for willful unauthorized disclosure or inspection.

**Civil damages for unauthorized inspection or disclosure.** The proposal would require the IRS to notify a taxpayer at the point of proposed administrative action as to disciplinary or adverse action against an employee arising from the unauthorized inspection or disclosure of the taxpayer's return or return information.

**Expanded disclosure in emergency circumstances.** The proposal would permit disclosure to local law enforcement authorities emergency situations including suicide threats.

**Disclosure of taxpayer identity for tax refund purposes.**—On April 15, 2002, about 1.7 million people who did not file their 1998 income tax return who lose more than \$2.3 billion in tax refunds. When the IRS is unable to find a taxpayer due a refund, present law provides that it may use “the press or other media” to notify the taxpayer of the refund. The IRS believes the current statutory framework in Section 6103(m) does not permit disclosure via the Internet. The proposal would allow the IRS to use any means of



“mass communicating,” including the Internet to notify a taxpayer of an undelivered refund.

**Disclosure to State officials of proposed actions related to section 501(c)**

**organizations.** The proposal provides that upon written request by an appropriate State officer, the Secretary may disclose: (1) a notice of proposed refusal to recognize an organization as a section 501(c)(3) organization; (2) a notice of proposed revocation of tax-exemption of a section 501(c)(3) organization; (3) the issuance of a proposed deficiency of tax imposed under section 507, chapter 41, or chapter 42; (4) the names, addresses, and taxpayer identification numbers of organizations that have applied for recognition as section 501(c)(3) organizations; and (5) returns and return information of organizations with respect to which information has been disclosed under (1) through (4) above. Disclosure or inspection is permitted for the purpose of, and only to the extent necessary in, the administration of State laws regulating section 501(c)(3) organizations, such as laws regulating tax-exempt status, charitable trusts, charitable solicitation, and fraud.

**Treatment of public records.** The proposal clarifies that public record data (e.g., press releases re criminal cases) does not retain 6103 protections in the files of the IRS .

**Investigative disclosures.** The proposal permits the IRS Criminal Investigation agents to identify themselves, organizational affiliation, and criminal nature of investigation when contacting third parties in writing or in person.

**TIN matching.** The proposal permits taxpayer identification number (TIN) verification by persons required to provide the information to the IRS (limited to whether information matches) to permit early error resolution and enhance compliance. Under present law, over 30 million information returns are received by the IRS from payors that contain missing or incorrect name and TIN information. However, the IRS is only permitted to disclose the error to the payor at the point at which the payment is subject to backup withholding.

**Form 8300 disclosures.** The proposal ensures that the Form 8300 (for reporting transactions in excess of \$10,000) can be disclosed to law enforcement in the same manner as financial reporting documents required under the Bank Secrecy Act (under Title 31).

**V. SIMPLIFICATION THROUGH ELIMINATION OF INOPERATIVE PROVISIONS**

**1. Adjustments in tax tables so that inflation will not result in tax increases.**

Paragraph (7) of section 1(f) is amended to read as follows: “(7) Special rule for certain brackets.--In prescribing tables under paragraph (1) which apply to taxable years beginning in a calendar year after 1994, the cost-of-living adjustment used in making adjustments to the dollar amounts at which the 36 percent bracket begins or at which the 39.6 rate bracket begins shall be determined under paragraph (3) by substituting ‘1993’ for ‘1992’.”

**2. Reduced capital gain rates for qualified 5-year gain.** Paragraph (2) of section 1(h) is amended by striking “In the case of taxable years beginning after December 31, 2000, the” and inserting “The”.

**3. Credit for producing fuel from nonconventional source.** Section 29 is amended by striking subsection (e).

**4. Earned income credit.** Paragraph (1) of section 32(b) is amended by striking subparagraphs (B) and (C) and by striking “(A) In General. In the case of taxable years beginning after 1995:”.

**5. General business credits.** Subsection (d) of section 38 is amended by striking paragraph (3).

**6. Carryback and carryforward of unused credits.** Section 39 is amended by striking subsection (d).

**7. Adjustments based on adjusted current earnings.** Clause (ii) of section 56(g)(4)(F) is amended by striking “In the case of any taxable year beginning after December 31, 1992, clause” and inserting “Clause”.

**8. Items of tax preference; Depletion.** Paragraph (1) of section 57(a) is amended by striking “Effective with respect to taxable years beginning after December 31, 1992, this” and inserting “This”.

**9. Intangible drilling costs.** Clause (i) of section 57(a)(2)(E) is amended by striking “In the case of any taxable year beginning after December 31, 1992, this” and inserting “This”. Clause (ii) of section 57(a)(2)(E) is amended by striking “(30 percent in the case of taxable years beginning in 1993)”.

**10. Annuities; certain proceeds of endowment and life insurance contracts.**

Paragraph (4) of section 72(c) is amended by striking “under the contract” and all that follows and inserting “under the contract.” Paragraph (3) of section 72(g) is amended by striking “January 1, 1954, or”.

**11. Accident and health plans.** Section 105(f) is amended by striking “or (d)”.

**12. Flexible spending arrangements.** Section 106(c)(1) is amended by striking “Effective on and after January 1, 1997, gross” and inserting “Gross”.

**13. Certain combat zone compensation of members of the Armed Forces.** Subsection (c) of section 112 is amended by striking “(after June 24, 1950)” in paragraph (2), and striking “such zone;” and all that follows in paragraph (3) and inserting “such zone.”

**14. Principal residence.** Section 121(b)(3) is amended by striking subparagraph (B).

**15. Certain reduced uniformed services retirement pay.** Section 122(b)(1) is amended by striking “after December 31, 1965,”.

**16. Great plains conservation program.** Section 126(a) is amended by striking paragraph (6).

**17. Mortgage revenue bonds – Federal disaster area modifications.** Eliminate special qualified mortgage bond rules for residences located in Federal disaster areas. (utility expired January 1, 1999).

**18. Interim authority for governors regarding allocation of private activity bond volume limits.** Eliminate temporary gubernatorial authority to allocate the volume limit.

**19. Treble damage payments under the antitrust law.** Section 162(g) is amended by striking the last sentence.

**20. State legislators’ travel expenses away from home.** Paragraph (4) of section 162(h) is amended by striking “For taxable years beginning after December 31, 1980, this” and inserting “This”.

**21. Interest.** Section 163 is amended by striking paragraph (6) of subsection (d) and paragraph (5) of subsection (h). Section 56(b)(1)(C) is amended by striking clause (ii) and by redesignating clauses (iii) and (iv) as clauses (ii) and (iii) respectively.

**22. Charitable, etc., contributions and gifts.** Section 170 is amended by striking subsection (k).

**23. Amortizable bond premium.** Subparagraph (B) of section 171(b)(1) is amended to read as follows:

“(B)(i) in the case of a bond described in subsection (a)(2), with reference to the amount payable on maturity or earlier call date, and

“(ii) in the case of a bond described in subsection (a)(1), with reference to the amount payable on maturity (or if it results in a smaller amortizable bond premium attributable to the period to earlier call date, with reference to the amount payable on earlier call date), and”

**24. Net operating loss carrybacks and carryovers.** Section 172 is amended by striking subparagraph (D) of subsection (b)(1), subsection (g), and subparagraph (F) of paragraph (h)(2).

**25. Research and experimental expenditures.** Subparagraph (A) of section 174(a)(2) is amended to read as follows: “(A) Without consent.--A taxpayer may, without the consent of the Secretary, adopt the method provided in this subsection for his first taxable year for which expenditures described in paragraph (1) are paid or incurred.”

**26. Amortization of certain research and experimental expenditures.** Paragraph (2) of section 174(b)(2) is amended by striking “beginning after December 31, 1953”.

**27. Soil and water conservation expenditures.** Paragraph (1) of section 175(d) is amended to read as follows: “(1) Without consent.--A taxpayer may, without the consent of the Secretary, adopt the method provided in this section for his first taxable year for which expenditures described in subsection (a) are paid or incurred.”

**28. Activities not engaged in for profit.** Section 183(e)(1) is amended by striking the last sentence.

**29. Dividends received on certain preferred stock; and Dividends paid on certain preferred stock of public utilities.** Sections 244 and 247 are repealed. Paragraph (5) of section 172(d) is amended to read as follows:

“(5) Computation of deduction for dividends received. The deductions allowed by section 243 and 245 shall be computed without regard to section 246(b) (relating to limitation on aggregate amount of deductions).”

Paragraph (1) of section 243(c) is amended to read as follows:

“(1) In General.--In the case of any dividend received from a 20-percent owned corporation, subsection (a)(1) shall be applied by substituting ‘80 percent’ for ‘70 percent’.”

Section 243(d) is amended by striking paragraph (4).

Section 246 is amended--

(i) by striking “,244,” in subsection (a)(1),

(ii) by striking “sections 243(a)(1), and 244(a),” the first place it appears in subsection (b)(1) and inserting “section 243(a)(1),” and by striking “244(a),” the second place it appears therein, and

(iii) by striking in subsection (c)(1).

Section 246A is amended by striking “244” in subsections (a) and (e).

Sections 277(a), 301(e), 469(e)(4), 512(a)(3)(A), subparagraphs (A), (C), and (D) of section 805(a)(4), 805(b)(5), 812(e)(2)(A), 832(b)(5), 833(b)(3)(E), 1059(b)(2)(B), and 1244(c)(2)(C) are each amended by striking “, 244,” each place it appears.

Section 805(a)(4)(B) is amended by striking “, 244(a),” each place it appears.

Section 810(c)(2) is amended by striking “244 (relating to dividends on certain preferred stock of public utilities),”.

**30. Organization expenses.** Section 248(c) is amended by striking “beginning after December 31, 1953,” and by striking the last sentence.

**31. Bond repurchase premium.** Section 249(b)(1) is amended by striking “, in the case of bonds or other evidences of indebtedness issued after February 28, 1913,”.

**32. Amount of gain where loss previously disallowed.** Section 267(d) is amended by striking “(or by reason of section 24(b) of the Internal Revenue Code of 1939)” in paragraph (1), by striking “after December 31, 1953,” in paragraph (2), by striking the

second sentence, and by striking “or by reason of section 118 of the Internal Revenue Code of 1939” in the last sentence.

**33. Acquisitions made to evade or avoid income tax.** Paragraphs (1) and (2) of section 269 are each amended by striking “or acquired on or after October 8, 1940,”.

**34. Interest on indebtedness incurred by corporations to acquire stock or assets of another corporation.** Section 279 is amended--

(A) by striking “after December 31, 1967,” in subsection (a)(2),

(B) by striking “after October 9, 1969,” in subsections (b),

(C) by striking “after October 9, 1969, and”, and

(D) by striking subsection (i) and redesignating subsection (j) as subsection (i).

**35. Special rules relating to corporate preference items.** Paragraph (4) of section 291(a) is amended by striking “In the case of taxable years beginning after December 31, 1984, section” and inserting “Section”.

**36. Qualifications for tax credit employee stock ownership plan.** Section 409 is amended by striking subsections (a), (g), and (p).

**37. Funding standards.** Section 412(m)(4) is amended by striking “the applicable percentage” in subparagraph (A) and by inserting “25 percent”, and by striking subparagraph (C).

**38. Retiree health accounts.** Section 420 is amended by striking subsections (b)(4) and (c)(2)(B).

**39. Employee stock purchase plans.** Section 423(a) is amended by striking “after December 31, 1963,”.

**40. Limitation on deductions for certain farming.** Section 464 is amended by striking “any farming syndicate (as defined in subsection (c))” in subsections (a) and (b) and inserting “any taxpayer to whom subsection (f) applies”, and by striking subsections (c) and (g).

**41. Deductions limited to amount at risk.** Paragraph (3) of section 465(c)(3) is amended by striking “In the case of taxable years beginning after December 31, 1978, this” and inserting “This”. Paragraph (2) of section 465(e)(2)(A) is amended by striking “beginning after December 31, 1978”.

**42. Nuclear decommissioning costs.** Section 468A(e)(2) is amended by striking “at the rate set forth in subparagraph (B)” in subparagraph (A) and inserting “at a rate of 20 percent”, and by striking subparagraph (B).

**43. Passive activity losses and credits limited.** Section 469 is amended by striking subsection (m). Subsection (b) of section 58 is amended by adding “and” at the end of

paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

**44. Adjustments required by changes in method of accounting.** Section 481(b)(3) is amended by striking subparagraph (C).

**45. Exemption from tax on corporations, certain trusts, etc.** Section 501 is amended by striking subsection (p).

**46. Requirements for exemption.** Section 503(a)(1) is amended to read as follows: “(1) General rule.--An organization described in paragraph (17) or (18) of section 501(a) or described in section 401(a) and referred to in section 4975(g)(2) or (3) shall not be exempt from taxation under section 501(a) if it has engaged in a prohibited transaction.” Paragraph (2) of section 503(a) is amended by striking “described in section 501(c)(17) or (18) or paragraph (a)(1)(B)” and inserting “described in paragraph (1)”. Subsection (c) of section 503 is amended by striking “described in section 501(c)(17) or (18) or subsection (a)(1)(B)” and inserting “described in subsection (a)(1)”.

**47. Amounts received by surviving annuitant under joint and survivor annuity contract.** Subparagraph (A) of section 691(d)(1) is amended by striking “after December 31, 1953, and”.

**48. Income taxes of members of Armed Forces on death.** Section 692(a)(1) is amended by striking “after June 24, 1950”.

**49. Insurance company taxable income.** Section 832(e)(1) is amended by striking “of taxable years beginning after December 31, 1966,” Section 832(e)(6) is amended by striking “In the case of any taxable year beginning after December 31, 1970, the” and by inserting “The”.

**50. Tax on nonresident alien individuals.** Subparagraph (B) of section 871(a)(1) is amended to read as follows: “(B) gains described in section 631(b) or (c),”.

**51. Property on which lessee has made improvements.** Section 1019 is amended by striking the last sentence.

**52. Involuntary conversion.** Section 1033 is amended by striking subsection (j).

**53. Property acquired during affiliation.** Section 1051 is repealed.

**54. Holding period of property.** Paragraphs (5) of section 1223 is amended by striking “(or under so much of section 1052(c) as refers to section 113(a)(23) of the Internal Revenue Code of 1939)”. Paragraph (7) of section 1223 is amended by striking the last sentence. Paragraph (9) of section 1223 is repealed.

**55. Property used in the trade or business and involuntary conversions.** Paragraph (2) of section 1231(c) is amended by striking “beginning after December 31, 1981”.

**56. Sale or exchange of patents.** Section 1235 is amended by striking subsection (c) and redesignating subsections (d) and (e) as (c) and (d) respectively.

**57. Dealers in securities.** Subsection (b) of section 1236 is amended by striking “after November 19, 1951,”.

**58. Sale of patents.** Subsection (a) of section 1249 is amended by striking “after December 31, 1962,”.

**59. Gain from disposition of farm land.** Subparagraph (a) of section 1252 is amended by striking “after December 31, 1969,”.

**60. Treatment of amounts received on retirement or sale or exchange of debt instruments.** Subsection (c) of section 1271 is amended by striking paragraph (1).

**61. Amount and method of adjustment.** Section 1314 is amended by striking subsection (d).

**62. Election; revocation; termination.** Clause (iii) of section 1362(d)(3) is amended by striking “unless” and all that follows and inserting “unless the corporation was an S corporation for such taxable year.”

**63. Old-age, survivors, and disability insurance.** Subsection (a) of section 1401 is amended by striking “the following percent” and all that follows and inserting “12.4 percent of the amount of the self-employment income for such taxable year.”

**64. Hospital insurance.** Subsection (b) of section 1401 is amended by striking “the following percent” and all that follows and inserting “2.9 percent of the amount of the self-employment income for such taxable year.”

**65. Ministers, members of religious orders, and Christian Science practitioners.** Paragraph (3) of section 1402(e) is amended by striking ““whichever of the following dates is later: (A)” and by striking “; or (B)” and all that follows and by inserting a period.

**66. Withholding of tax on nonresident aliens.** The first sentence of subsection (b) of section 1441 and the first sentence of paragraph (5) of section 1441(c) are each amended by striking the “gains subject to tax ” and all that follows through “October 4, 1966” and inserting “and gains subject to tax under section 871(a)(1)(D)”

**67. Affiliated group defined.** Subparagraph (A) of section 1504(a)(3) is amended by striking “for a taxable year which includes any period after December 31, 1984” in clause (i) and by striking “in a taxable year beginning after December 31, 1984” in clause (ii).

**68. Disallowance of the benefits of the graduated corporate rates and accumulated earnings credit.** Subsection (a) of section 1551 is amended--

(1) by striking paragraph (1) and designating paragraphs (2) and (3) as (1) and (2) respectively, and

(2) by striking “(2) or (3)” and inserting “(1) or (2)”.

Subsection (b) of section 1551 is amended by striking “or (2)”.

**69. Definition of wages.** Section 3121(b) is amended by striking paragraph (17).

**70. Credits against tax.** Section 3302(f) is amended by striking paragraphs (4)(B) and (5)(D).

**71. Domestic service employment taxes.** Section 3510(b) is amended by striking paragraph (4).

**72. Tax on fuel used in commercial transportation on inland waterways.** Section 4042(b)(2)(A) is amended to read as follows: “(A) The Inland Waterways Trust Fund financing rate is 20 cents per gallon.”

**73. Transportation by air.** Section 4261(e) is amended by striking paragraphs (1)(C) and (5).

**74. Taxes on failure to distribute income.** Section 4942 is amended--

(1) by striking subsection (f)(2)(D),

(2) by striking “For all taxable years beginning on or after January 1, 1975, subject” and inserting “Subject” in subsection (g)(2)(A),

(3) by striking subsection (g)(4), and

(4) by striking “after December 31, 1969, and” in subsection (i)(2).

**75. Taxes on taxable expenditures.** Section 4945(f) is amended by striking “(excluding therefrom any preceding taxable year which begins before January 1, 1970)”.

**76. Returns.** Subsection (a) of section 6039D is amended by striking “beginning after December 31, 1984,”.

**77. Information returns.** Subsection (c) of section 6060 is amended by striking “year” and all that follows and inserting “year.”.

**78. Abatements.** Section 6404(f) is amended by striking paragraph (3).

**79. Failure by corporation to pay estimated income tax.** Clause (i) of section 6655(g)(4)(A) is amended by striking “(or the corresponding provisions of prior law)”.



**80. Retirement.** Section 7447(i)(3)(B)(ii) is amended by striking “at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter”, and inserting “at 3 percent per annum”.

**81. Annuities to surviving spouses and dependent children of judges.** Paragraph (2) of section 7448(a) is amended by striking “or under section 1106 of the Internal Revenue Code of 1939” and by striking “or pursuant to section 1106(d) of the Internal Revenue Code of 1939”.

Subsection (g) of section 7448 is amended by striking “or other than pursuant to section 1106 of the Internal Revenue Code of 1939”.

Subsection (j)(1)(B) and (j)(2) of section 7448 are each amended by striking “at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter” and inserting “at 3 percent per annum”.

**82. Merchant Marine capital construction funds.** Paragraph (4) of section 7518(g) is amended by striking “any nonqualified withdrawal” and all that follows through “shall be determined” and inserting “any nonqualified withdrawal shall be determined”.

**83. Valuation tables.** Paragraph (3) of section 7520(c) is amended by striking “Not later than December 31, 1989, the” and inserting “The”.

**84. Administration and collection of taxes in possessions.** Section 7651 is amended by striking paragraph (4).

**85. Definition of employee.** Section 7701(a)(20) is amended by striking “chapter 21” and all that follows and inserting “chapter 21”.

Effective Date.--

General Rule.--Except as otherwise provided in this part, the amendments made by this part shall take effect of the date of enactment of this Act.

Savings Provision.--If

(1) any provision amended or repealed by this part applied to--

(a) any transaction occurring before the date of the enactment of this Act,

(b) any property acquired before such date of enactment, or

(c) any item of income, loss, deduction, or credit taken into account before such date of enactment, and

(2) the treatment of such transaction, property, or item under such provision would (without regard to the amendments made by this part) affect the liability for tax for periods ending after such date of enactment, nothing in the amendments made by this part shall be construed to affect the treatment of such transaction, property, or item for purposes of determining liability for tax for periods ending after such date of enactment.